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ABSTRACT

This paper reviews the concept of performance funding (PF) in governmental and higher education budgeting at the state level, reports the results of a recent national study of state-level PF for higher education, and assesses the likelihood that PF will become a permanent fixture in most states' approaches to budgeting for higher education. The study is based on a mail survey of 40 state higher education finance officers, which sought information on the status of PF in the respondents' states, the breadth of PF programs, program objectives, program history, program mechanics, performance measures and evaluation, and the respondents' observations on the effectiveness and future outlook for PF. It found that, despite the rhetoric from governors and state legislatures about the need for increased accountability for higher education, only eight of the states surveyed (20 percent) had PF in place, and that the majority had no current plans to implement PF for higher education. The survey did find that policy-makers were generally perceived by the respondents as viewing PF as an effective management tool. A copy of the survey form is included. (Contains 12 references.) (MDM)

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Performance Funding at the State Level: Trends and Prospects

paper presented to the:

1995 Annual Meeting of the
Association for the Study of Higher Education
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November 2, 1995

by:

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This paper was presented at the annual meeting of the Association for the Study of Higher Education held at the Marriott Hotel, Orlando, Florida, November 2-5, 1995. This paper was reviewed by ASHE and was judged to be of high quality and of interest to others concerned with the research of higher education. It has therefore been selected to be included in the ERIC collection of ASHE conference papers.

1.0 Introduction

State budgetary constraints and an increased interest in accountability and programmatic outcomes for state systems of higher education among state policy-makers in recent years have brought about a renewed interest in the uses and implications of *performance budgeting/funding*. While there is no universally accepted definition of "performance budgeting or funding," a recent report on performance budgeting by the National Conference of State Legislatures (NCSL) defines the practice as,

> *".. the allocation of resources to achieve specific objectives based on program goals and measured results"* (Carter 1994).

States also use fiscal policy to achieve state higher education goals through more indirect, and process-based funding methods which we term *"special initiative funding"* (discussed in Section 2.4 of this paper).

Although the underlying concept of performance funding for public higher education is not new, there is no comprehensive source of information on the extent to which such programs are being used by the states, the mechanics of such programs, and their degree of success or failure. The purpose of this paper is to review the concept of performance funding in governmental and higher education budgeting at the state level (section 2), to report the results of a recent national study of state-level performance funding for higher education (sections 3 and 4), and to assess the likelihood that performance funding will become a permanent fixture in most states' approaches to budgeting for higher education (section 5).

2.0 Background on Performance Funding/Budgeting

2.1 An Overview of Governmental Budgeting Forms. The traditional -- and dominant -- form of governmental budgeting is the incremental budget. In the broadest sense, the practice of incremental budgeting starts with an agency's prior year (or biennial) base budget and allocates increases (or decreases) to that base according to a set of established decision rules or budget guidelines. Examples of decision rules or budget guidelines include inflationary increases for supplies and utilities, or cost of living adjustments for employee salaries. Under this budget practice, policy-makers typically focus on "cost to continue" items (e.g., increases/decreases due to inflationary increases or caseload changes) and in some instances new program initiatives.

The attractiveness of incrementalism is that it is manageable given the time constraints faced by policy-makers and budgeteers during the budget process (budget development, budget review, budget allocation, and implementation) because the focus is on a relatively small amount of money -- the increment. However, a major criticism of incrementalism is that because the focus tends to be on the increment (or decrement), the majority of the budget -- the existing base -- remains largely unreviewed during the budget process. Other criticisms of incrementalism are its lack of rationality, its susceptibility to political whim, and its tendency to perpetuate past inequities in the distribution of resources among agencies.

Two notable attempts from the past to improve upon the practice of incrementalism in governmental budgeting (i.e., to make more rational) include *planning, programming, and budgeting system (PPBS)* and *zero-based budgeting (ZBB)*. The underlying principle of

PPBS is that the governmental agency is essentially a set of interrelated programs, each of which must be continually justified per a plan or mission using rational, data-based evaluation procedures. PPBS was originally developed in the 1960s as a way for the Pentagon to allocate resources for national defense. Budgeting under the PPBS approach tends to consider the long-term impact of current decisions, often simulating future budget plans for five or six years ahead.

ZBB, on the other hand, starts with the premise that no base budget is inviolate and that it should be rebuilt and re-justified from "ground zero" every budget cycle. A common variation of ZBB in practice asks agencies to prioritize its activities and to identify how significant budget reductions (e.g., 25 percent) would be handled. Neither the PPBS or ZBB forms of budgeting has been fully implemented in practice over the long term due to a perceived lack of effectiveness, their time consuming nature and relative complexity, and the unwillingness of some political leaders to rely on more "rational" forms of budgeting.

A form of budgeting that has been used by over half the states in funding higher education specifically as a means of improving upon incrementalism is *formula budgeting*. "Formula funding" refers to a mathematical basis for requesting and/or allocating dollars to institutions of higher education using a set of cost/staffing factors (i.e., rates, ratios, and/or percentages) in relationship to specified inputs (e.g., student credit hours, enrollments, federal research dollars). States have used funding formulas for public higher education since the 1940s. Originally envisioned as a means to distribute public funds for higher education in a rational and equitable manner, funding formulas have evolved over

time into complicated methods with multiple purposes and outcomes. Caruthers (1989) notes that formulas have undergone constant evolution since their inception, and identifies four long-term trends in the use and development of formula-related budgeting approaches:

- more detailed budget categories and factors,
- more control and monitoring of formula categories by state boards of higher education and legislative/executive budget staff in response to increased demands for accountability,
- more non-formula components such as categorical grants for equipment and economic development, and
- decoupling/buffering formulas from enrollment changes in response to anticipated enrollment declines.

A recent survey of state funding formulas found that 33 states were using formulas in 1992, compared with 33 in 1988 and 36 in 1984 (McKeown and Layzell 1994).

2.2 Performance Budgeting. Performance budgeting is in many ways a legacy of PPBS and ZBB. According to Carter (1994), a performance budget has the following four characteristics:

- It presents the major purpose for which funds are allocated and sets measurable objectives.
- It reports on past performance and uses common cost classifications that allow programs to be compared rather than focusing on line-item comparisons.
- It offers management flexibility to reallocate money as needed, and to provide rewards for achievement or penalties for failure.
- It incorporates findings from periodic program evaluations that are supported by credible information that can be independently audited.

At least 25 states are currently in the process of evaluating or implementing performance budgeting (Carter 1994).

2.3 Accountability Measurement in Higher Education. As previously discussed, performance funding is distinguished by a focus on measurable outcomes and a direct tie between performance measures and funding allocations. These programs are ultimately based on the concept of accountability. "Accountability" refers to the responsibility of higher education to report on its failures and achievements to state government within a set of mutually agreed upon goals and objectives. The concept of public higher education being accountable to external agencies has been in place for several decades. Since the 1960s, however, the focus of accountability has shifted from a fiduciary orientation to an orientation focused on outcomes and performance (Mingle and Lenth 1989). This is not to suggest that state governments have abandoned interest in financial control systems, but instead have become increasingly interested in the return on investment. The questions now being asked by state policy-makers have gone beyond merely "Were the dollars spent appropriately?" to also consider "What did we achieve with the dollars spent?"

At the state-level, accountability is operationalized through the setting of goals and objectives for higher education, and the periodic measurement of progress toward those goals and objectives using accepted indicators. The setting of statewide goals and objectives for higher education is an activity unique to every state, although most states share the basic goal of advancing quality. Ewell and Jones (1994) note four approaches commonly used in measuring progress toward accountability goals and objectives:

- Inputs, processes, outcomes: a "production" process model aimed at measuring the value added to departing students perhaps through pre- and post assessments;

- Resource efficiency and effectiveness: an approach designed to measure the efficient usage of key resources such as faculty, space, and equipment using ratio analyses or similar techniques;

- State need and return on investment: an approach built on the assumption that higher education is a strategic investment for states -- it is designed to measure the fit between higher education and state needs (e.g., work force preparation);

- "Customer" need and return on investment: an approach built on the notion of "consumerism" that is designed to measure the impact of higher education in meeting individual needs (e.g., retention and graduation rates, employability of graduates).

The four approaches are by no means independent, and the authors note that most states employing accountability/performance indicators borrow from one or more of the other areas. Ewell and Jones further note that, "the point for policy makers is less to choose among them (the four approaches) as much as it is to ensure that those responsible for developing any planned statewide indicator system recognize the need to be guided by an explicit policy framework ..." (p. 13). In short, the policy goals and objectives should drive the selection of performance indicators, and not the other way around.

2.4 Linking Outcomes and State Funding

Performance-based funding is the logical extension of a system of performance indicators, and it directly ties together accountability, performance, and funding levels. Performance or incentive funding initiatives for higher education have had some success, most notably in Tennessee (Folger 1989). Tennessee's incentive funding program and the

additional funding received by institutions both directly and indirectly as the result of this program has been held up as the prime example of gaining public support by documenting performance. Other more limited examples of success can be found in several states where research funding is generated through an incentive formula provision that provides state matching funds as a reward for attracting sponsored research revenues.

Ashworth (1994), based on his attempt to implement performance funding in Texas, cautions that fully implementing performance budgeting for higher education has two fundamental problems. First, "uniform agreements on the values that would have to be cranked into a formula do not exist, and data are not available within reason or within tolerable costs to feed such a formula system" (1994, p.11). Secondly, it is conceivable that if all funding were distributed on a performance basis, that there could be significant redistribution of funds from year to year. This would adversely affect institution's ability to plan and execute, ultimately defeating the purpose of performance budgeting.

Texas recently attempted to implement a performance-funding program for its public universities. In 1991, the Texas legislature began a series of budget reforms aimed at greater accountability for all state agencies, including public colleges and universities. The Texas Higher Education Coordinating Board (THECB) was given the responsibility of developing a performance-funding plan for public higher education in that state for implementation in 1993 (Richardson 1994). The initial proposal put forth by the THECB was that 5 to 10 percent of each university's budget would be set aside, and then have to be earned back based on performance on 10 performance measures/standards (Ashworth 1994). Ultimately, the performance funding plan for Texas higher education failed to gain

passage by the legislature due to a variety of factors, including a lack of broad-based legislative commitment to the concept. However a case study of the process provides useful lessons to inform future efforts:

(1) the underlying concept of quality needs to be widely accepted within and without the system of higher education;

(2) support must be gained from political leadership;

(3) the program must have logical consistency and operational simplicity; and

(4) concrete examples of success with performance funding in other states is necessary (Bateman and Elliott 1994).

While the Texas experiment failed, the increased interest in accountability and performance funding suggests that related efforts in other states may surface in the near future.

2.5 Special Initiative Funding. While still ultimately concerned with quality and outcomes in higher education, the distinguishing feature of special initiative funding from performance funding is a more process-based approach that links funding with outcomes only indirectly. Two early versions of the special initiative funding approach were Ohio's Selective Excellence Program and New Jersey's Competitive and Challenge Grants. The Ohio initiative began in 1983 as a package of five incentive-based programs with distinct goals for Ohio public higher education:

(1) enhancing undergraduate education at public colleges and universities;

(2) attracting world-class faculty;

(3) developing "centers of excellence";

(4) stimulating research excellence; and

(5) enhancing workforce productivity (Hairston 1989).

A sixth program was added in 1987 with the goal of rewarding liberal arts excellence in Ohio private colleges. This initiative was partially eliminated in the early 1990s, primarily due to budget constraints.

The first component of the New Jersey program, the Competitive Grants, was implemented in 1984 (Folger and Jones 1993). Faculty and academic departments were eligible to submit proposals related to identified state priorities. The Challenge Grant program was implemented in 1986 with the goal of encouraging all institutions in the state (public and private) to develop more focused missions and improve programs in high priority areas. The New Jersey program was eliminated in 1991 due to state budget problems (Folger and Jones 1993).

Illinois' Priorities-Quality-Productivity (PQP) activities are a contemporary example of special initiative funding. This initiative was developed in 1991 by the Illinois Board of Higher Education (IBHE) in response to increasingly restricted state resources and concerns about quality and accountability in Illinois public colleges and universities. Two major goals of PQP have been to improve productivity and to encourage institutions to reallocate resources from low priority areas (both academic and administrative) to high priority areas. This is accomplished through the development of a "focus statement" indicating the institution's specific priorities and through IBHE-developed guidelines and recommendations for improving productivity. The IBHE has used PQP as the framework for developing its annual unified budget recommendation for Illinois higher education to the Governor and General Assembly in each of the past four fiscal years (including the

recommendations for FY 1996). Evidence of the success of PQP is the fact that the Governor accepted the IBHE's recommendation without change in FY 1995.

3.0 Study Methodology

3.1 Study Design. This study is based on a mail survey of State Higher Education Finance Officers (SHEFOs) in the 50 states and the District of Columbia on state performance funding programs for higher education. The survey was conducted during the period October - December, 1994. The survey form (see Appendix for sample form) collected information on the following issues:

- the status of performance funding in the respondent's state;
- breadth of performance funding program;
- program objectives;
- program history;
- program mechanics;
- performance measures and evaluation; and
- the respondent's observations on the effectiveness and future outlook for the program.

The survey instrument was field tested among a select group of expert individuals for comprehensiveness, clarity, and validity during August - September, 1994.

3.2 Survey Response. Of the 51 SHEFOs surveyed, 40 ultimately returned usable survey responses for an overall response rate of 78.4 percent. The states responding to

the survey enroll 70.6 percent of all students in public colleges and universities and account for 74.0 percent of all state appropriations for higher education.

4.0 Survey Results

4.1 Status of Performance Funding in the States. The current status of performance funding programs for higher education in the states is indicated in Table 1. Respondents were asked to indicate whether their state:

(1) currently had a performance funding program;

(2) did not currently have a program and no plans to implement one;

(3) did not currently have a program but planned to implement one in the near future; or

(4) did not currently have a program but had one in the past.

Of the 40 respondents, 8, or 20 percent, currently have a performance funding program in place. This includes Minnesota, whose legislature adopted a performance funding measure for higher education in 1994 and directed all public postsecondary education sectors (including universities, community colleges, and technical colleges) to develop appropriate performance funding indicators and performance levels through their governing boards. Each governing board is now in the early stages of design and implementation of its performance funding model.

More than one-half of the respondents (22 or 55%) indicated that their state did not currently have a program, and had no plan to implement one in the future. Ten

respondents (25.0%) indicated that their state was considering the development of a performance funding program in the near future. This includes three states (Idaho, Kentucky, and Ohio) that have definite plans to implement such a program in FY 1996. No respondent indicated that their state previously had a performance funding program that has been discontinued.

4.2 Breadth of Performance Funding Programs. A summary of items covering the breadth of the nine existing or imminent performance funding programs is presented in Table 2. Regarding the sectors eligible to participate in the programs, respondents indicated that:

- Public four-year institutions are eligible to participate in 8 states;
- Public two-year institutions are eligible to participate in 7 states;
- Institutions from both sectors are eligible to participate in 4 states;
- In no instance are private institutions eligible to participate.

Only three states indicated that there are restrictions attached to program funds. Of the states with program appropriations in FY 1995, the percent that program funds represented of the total higher education appropriation ranged from 0.3 percent in Connecticut to 3.4 percent in Kentucky. In three states (Arizona, Florida, and Idaho), performance funding applies to most or all other state agencies, while in the other seven states performance funding is specific to higher education.

4.3 Performance Funding Program Objectives. Respondents were asked to indicate the objectives of their performance funding program, and to indicate the means by which

program objectives were linked to the funding mechanism. Table 3 summarizes the program objectives into 11 areas:

- general efficiency/quality
- enhancing undergraduate education
- enhancing research/public service
- economic development
- reducing administrative costs
- improving retention/articulation/graduation.
- minority student achievement
- enhancing graduate education
- enhancing faculty/staff diversity
- improving faculty productivity
- maintaining access

Of the ten states, the number of program objective areas represented in state performance funding programs ranged from one in Arizona and Florida to eight in Arkansas. However, only two other states had more than four of these areas covered in their programs. There is also not a significant degree of commonality running through these programs as to program objectives. In only one instance (enhancement of undergraduate education) did more than four states have that program objective in common. In general, states tend to link program objectives to the funding mechanism through objective criteria such as performance measures.

4.4 Performance Funding Program History. Table 4 summarizes major historical aspects of performance funding programs. Most programs are fairly new -- only three states have programs that were implemented prior to FY 1990. Tennessee has the oldest program, which was implemented in FY 1979. In all cases, the impetus for performance funding came, at least in part, from officials outside of the institutions of higher education.

4.5 Performance Funding Program Mechanics. Table 5 summarizes the mechanics of state performance funding programs. Respondents were asked about the method for distributing program funds and also the time of the year when the funds are distributed.

Six of the ten states allocate (or will allocate) funds through a formula, one allocates funds through a competitive grant process, and three through other means. Slightly more states allocate program funds during the initial budget allocation (6) versus during the academic/fiscal year (4).

4.6 Performance Measures and Evaluation. Respondents were also asked about the use of performance funding measures and what major parties were involved with the actual performance assessment and verification (see Table 6). Not surprisingly, all states incorporate specific performance measures as part of their performance funding programs. In terms of who is involved with the performance assessment, survey responses indicated that SHEEO agencies are the most likely to play a role (7 states), followed by an executive branch agency (5 states), the institutions themselves (4 states), and governing boards and legislative agencies (3 states each). Interestingly, in no state is there an independent auditor involved in the process. Idaho has the greatest number of parties involved in the performance assessment process (4), while Missouri has none.

4.7 Perceived Views of Program Effectiveness. Respondents were asked to rate on a five-point scale ranging from highly effective to highly ineffective how *they perceive* various other policy-makers view the overall effectiveness of performance funding programs. Nine policy-maker groups were chosen: the governor, governor's staff, legislative leadership, legislative staff, SHEEO board members, the SHEEO, governing board members, system heads, and institution heads. Full or partial responses to this question were obtained only from those states with currently operating performance

funding programs, and these are summarized in Table 7. The SHEFO respondents tended to perceive all policy-makers but SHEEO board members as seeing the performance funding program as highly effective or effective. Three policy-maker groups -- SHEEO board members, governing board members, and institution heads -- were perceived by our respondents as viewing the program as ineffective or highly ineffective by at least one respondent in each instance.

Respondents were also asked to what extent institutions had control over the presentation and interpretation of performance indicators (substantial, some, or none), whether the program has resulted in more overall funding for higher education, and the degree of vulnerability of program funds relative to base appropriations (more vulnerable, as vulnerable, or less vulnerable). Four respondents (out of six) indicated that institutions have some control over the presentation of performance indicators and one indicated that institutions had substantial control. Three respondents (out of five) felt that the program had resulted in a larger amount of funding for higher education. Also, three felt that program funds were at least as vulnerable to cuts as base appropriations, while two felt they were less vulnerable.

5.0 Implications and Conclusions

5.1 Trends in Adoption of Performance Budgeting Models. Despite the rhetoric from governors and legislatures about the need for increased accountability for higher education, the results of this survey indicate that the majority of states have no current

plans to implement performance funding for higher education. It could be that states are adopting a "wait and see" posture toward such programs given that "the appropriateness of performance-based funding for public higher education has not been established" (Bateman and Elliott 1994, p. 50). The obvious implication of this adoption strategy is that no other state will ever implement performance funding if each is waiting on some other state to be next.

However, our survey finding that policy-makers were generally perceived as viewing performance funding programs as effective may change this hesitant posture in the future. Ashworth (1994) notes that "in their national annual meetings, governors, state legislators, and state budget officers are discussing many new ways of budgeting and economizing in government. The networks and grapevines are working fast to spread the word about what is being tried and any new idea that sounds like it might work" (p. 11). Thus, even though many states reported no plans to implement performance funding programs for higher education, the positive perceptions of those states who have tried such programs may bring about further "conversions."

On the other hand, our survey findings may foretell a very different future for performance funding. Generally speaking, those policy-makers most removed from the campus (e.g., governors, legislators) are perceived as being the most enthusiastic about performance funding while those closest to the campus (e.g., presidents) are the most skeptical. Since administrators, who tend to be career employees, are likely to outlast politicians whose public policy careers often last less than a decade, perhaps performance funding will die for lack of interest before it is ever institutionalized by the academy.

It is too soon to hypothesize what the future will be for performance funding in higher education, and how widespread such programs will become. Given that at least half of all states are currently at some stage of considering or implementing performance budgeting in their budget processes, it is likely that more experiments involving higher education will occur. Also, states that now employ special initiative funding may move toward performance funding similar to the history of the Tennessee program.

5.2 Impact of Performance Funding. As uncertain as future adoption strategies for performance are, what is more unclear are the real effects of performance funding programs on institutions of higher education. Will desired goals and objectives related to improved quality and performance actually be attained, or will institutions simply attempt to "game" performance indicators to their benefit? The finding that most institutions have at least some control over the presentation and interpretation of performance indicators suggests that some manipulation will occur. Future evaluation of state programs after some period of operation will be needed to determine the real effectiveness of performance budgeting within higher education.

Also unclear is whether performance funding will have the desired impact on public support for higher education in those states where implementation is attempted. The answer to this question will always be based on subjective judgement since there will be no may to compare whether a state's colleges and universities would have fared better if a different funding model been followed.

5.3 Trends in the Design of Models. Of those states with performance funding programs, the proportion of total higher education funding allocated through such programs is relatively modest. This suggests a desire to maintain institutional base funding levels -- and thus funding predictability. This finding is not surprising given the general unpredictability of state funding for higher education in recent years. It is also consistent with the findings of two recent studies of state funding processes for higher education that indicated increased interest in funding strategies that protect base budgets (McKeown & Layzell 1994; AASCU 1991).

The diversity among states as to the numbers and types of performance funding program objectives reflects in part the unique nature of each state's system of higher education, and general socio-political culture. In each state, policy-makers will have distinct ideas about what type of program objectives are important. The four general approaches to measuring progress toward accountability goals and objectives outlined by Ewell and Jones (1994) and mentioned previously are all covered in part or in whole by each performance funding program.

5.4 Potential Obstacles to the Permanent Adoption of Performance Funding. As noted earlier, budgeting for the public sector, and for higher education in particular, has seen many reforms come and go over the years (e.g., PPBS, ZBB, etc.). Reasons commonly cited for the lack of long-term acceptance of these earlier innovations include the complexity and administrative burden associated with them. If performance funding models are seen as too onerous for the dollar amounts involved, they may see the same fate as their predecessors. Instead, short-term special initiative funding models may

persist as the method of choice for state policy-makers to use the budget process to try to change the direction of higher education.

5.5 Conclusion: An Opportunity for Public Higher Education. The renewed interest in pursuing performance funding mechanisms for higher education at the state level has broad policy and practical implications for higher education. Higher education leaders could view renewed attempts to implement performance funding mechanisms as a further "intrusion" into the academy at a time when state support for higher education is stagnant (or waning in some instances). However, an alternative, and perhaps more constructive viewpoint would be that performance funding is an opportunity to engage increasingly disinterested and distracted policy-makers (i.e., governors and legislatures) in a conversation on state-level goals and priorities for higher education and to have the chance to demonstrate its ability to produce.

As mentioned earlier in this paper, performance funding is ultimately based on the concept of accountability -- documenting higher education's failures and achievements to state government and the public within a set of mutually agreed upon goals and objectives. Recent trends clearly indicate that the current and future outlook for state governments has health, welfare, corrections, and state budget and tax reform foremost in policy-makers' minds. Higher education has had, and will likely continue to have, a lesser budget and policy priority in the years to come. Within this scenario, then, performance funding becomes a "hook" for maintaining policy-maker interest in public higher education by establishing goals and objectives and linking them explicitly to funding outcomes. Without such a framework, higher education could well have a difficult time even

registering on the policy radarscope in the coming years. Of course, there are no guarantees that even with performance funding, the budget picture for higher education would improve or that policy-maker interest would not ultimately wane. However, it provides an opportunity at the very least to begin to bridge the gap with one of its most important -- and increasingly disenfranchised -- constituencies.

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Table 1
Current Status of State Performance Funding Programs For Higher Education

State	Currently Have Program	Do Not Currently Have Program			No Response	Notes
		No Plans To Implement One	Planning To Implement One	Had Program Previously		
Alabama		X				
Alaska		X				
Arizona	X					
Arkansas	X					Program effective 1995–97 biennium.
California					X	
Colorado					X	
Connecticut	X					
Delaware		X				
District of Columbia		X				
Florida	X					
Georgia		X				
Hawaii					X	
Idaho			X			Program effective in FY 1996.
Illinois		X				
Indiana		X				
Iowa					X	
Kansas		X				
Kentucky			X			Program effective in FY 1996.
Louisiana		X				
Maine		X				
Maryland		X				
Massachusetts		X				
Michigan		X				
Minnesota	X					In early stages of development and implementation.
Mississippi			X			
Missouri	X					
Montana					X	
Nebraska	X					
Nevada		X				
New Hampshire					X	
New Jersey		X				
New Mexico			X			
New York					X	
North Carolina		X				
North Dakota			X			
Ohio			X			Program effective in FY 1996.
Oklahoma					X	
Oregon			X			
Pennsylvania			X			
Rhode Island					X	
South Carolina			X			
South Dakota			X			
Tennessee	X					
Texas		X				
Utah		X				
Vermont		X				
Virginia					X	
Washington		X				
West Virginia					X	
Wisconsin		X				
Wyoming		X				
Total	8	22	10	0	11	

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Table 2
Breadth of Performance Funding Program
(Includes states with definite plans to implement in FY 1996)

State	Sectors Eligible			Program Funding Restrictions		FY 1995 Program Funding[1] (millions)	Pct. of Total Higher Ed. $[1]	Statewide Performance Funding Initiative
	Public 4-Yr.	Public 2-Yr.	Private Inst.	Usage Restrictions	Type of Restrictions			
Arizona	X			NA	NA	NA	NA	Yes
Arkansas[2]	X	X		No	None	NA	NA	No
Connecticut	X	X		Yes	Minority recruitment and retention	$1.3	0.3%	No
Florida		X		Yes	For vocational program enhancement	$10.9	0.7%	Yes[3]
Idaho[4]	X			No	None	NA	NA	Yes
Kentucky[4]	X	X		No	None	$24.0	3.4%	No
Missouri	X	X		No	None	$5.3	0.8%	no
Nebraska	X			Yes	Research funding	$12.3	3.3%	No
Ohio[4]		X		No	None	NA	NA	No
Tennessee	X	X		No	None	$27.1	3.3%	No
Number	8	7	0					

[1]State general fund appropriations only.

[2]Program implementation effective 1995-97 biennium.

[3]Program is specific to vocational education -- other performance funding initiatives exist in other state agencies.

[4]Program effective FY 1996.

Table 3
Summary of Performance Funding Program Objectives

State	Program Objectives/Goals												Linkage of Program Objectives to Funding Mechanism
	A	B	C	D	E	F	G	H	I	J	K	#	
Arizona	X											1	Direct linkage.
Arkansas[1]		X	X	X		X	X	X	X		X	8	Direct linkage based on percentage of institutional budget.
Connecticut		X				X						2	Funding based on progress toward goals.
Florida							X					1	Direct linkage.
Idaho[2]												NA	None yet specified.
Kentucky[2]	X		X	X	X				X		X	6	Funding tied to performance measures
Missouri		X	X								X	3	Funding tied to performance measures
Nebraska					X			X				2	Funds alloted for research projects involving industry.
Ohio[2]			X					X		X	X	4	Funding based on points assigned to performance measures.
Tennessee	X	X	X	X	X			X			X	7	Funding based on points assigned to performance measures.
Number	3	4	5	3	3	2	2	4	2	1	5		

Key to Table:

A = General Institutional Efficiency/Effectiveness/Quality
B = Minority Student Achievement
C = Enhancement of Undergraduate/General Education
D = Enhancement of Graduate Education
E = Enhancement of Research/Public Service Function
F = Faculty/Staff Diversity
G = State Economic Development/Service to Business/Industry
H = Improving Faculty Productivity
I = Reducing Administrative Costs
J = Improving/Maintaining Access
K = Improving Retention/Graduation/Articulation

[1]Program effective 1995-97 biennium.

[2]Program effective in FY 1996.

Table 4
Performance Funding Program History

State	Year Implemented	Impetus For Establishment	Number of Participating Institutions		
			Public 4-Year	Public 2-Year	Private Institution
Arizona	FY 1994	Governor	3	0	0
Arkansas	FY 1995-97	SHEEO Agency	10	10	0
Connecticut	FY 1985	SHEEO Agency	5	12	0
Florida	FY 1995	Governor/Commissioner of Education	0	20	0
Idaho	FY 1996	Legislature	4	0	0
Kentucky	FY 1996	Governor	8	14	0
Missouri	FY 1995	SHEEO Agency	13	16	0
Nebraska	FY 1989	Governor/Institutions	4	0	0
Ohio	FY 1996	Legislature	0	0	0
Tennessee	FY 1979	SHEEO Agency	9	14	0

Table 5
Performance Funding Program Mechanics

State	Funding Distribution Methodology			Allocation Timing		
	Through Formula	Through Grants	Other	Part of Budget	During AY/FY	Other Time
Arizona			X[1]	X		
Arkansas[2]	X				X	
Connecticut			X		X	
Florida			X[3]		X	
Idaho[4]	X			X		
Kentucky[4]	X			X		
Missouri	X			X		
Nebraska		X		X		
Ohio[4]	X				X	
Tennessee	X			X		
Number	6	1	3	6	4	0

[1]Funds are only taken away, not added.

[2]Program effective 1995-97 biennium.

[3]Funding allocations based on estimates of current performance calculated from prior year actual performance; adjusted at end of year.

[4]Program effective FY 1996.

Table 6
Performance Measures and Evaluation

State	Perf. Meas. Used?	Performance Assessment/Post-Audit Involvement						
		Institution	Governing Board	SHEEO Agency	Executive Agency	Legislative Agency	Independent Auditor	Number Involved
Arizona	Yes				X	X		2
Arkansas[1]	Yes	X	X	X				3
Connecticut	Yes	X	X	X				3
Florida	Yes			X	X			2
Idaho[2]	Yes	X		X	X	X		4
Kentucky[2]	Yes			X	X			2
Missouri	Yes							0
Nebraska	Yes - Varies Annually				X	X		2
Ohio[2]	Yes			X				1
Tennessee	Yes	X	X	X				3
Number	All Yes	4	3	7	5	3	0	Ave = 2.2

[1]Program effective 1995-97 biennium.

[2]Program effective FY 1996.

Table 7
Perceptions of Policymaker Views on Program Effectiveness

	Highly Effective	Effective	Neutral	Ineffective	Highly Ineffective	Index Score[1]
Governor (n=5)	3	1	1	0	0	1.40
Governor's Staff (n=5)	2	3	0	0	0	1.40
Legislative Leadership (n=5)	1	3	1	0	0	1.00
Legislative Staff (n=5)	1	2	2	0	0	0.80
SHEEO Board Members (n=5)	2	0	1	2	0	0.40
SHEEO (n=2)	2	0	0	0	0	2.00
Governing Board Members (n=5)	1	2	1	1	0	0.60
System Heads (n=4)	2	1	1	0	0	1.25
Institution Heads (n=5)	1	2	1	0	1	0.40

[1]Index scores are based on the following weights: "highly effective" = 2 points; "effective" = 1 point; "neutral" = 0 points; "ineffective" = -1 point; and "highly ineffective" = -2 points.

Survey on State Performance Funding for Higher Education

1. ***Respondent Information***

State/System: _____

Your Name/Title: _____

Your Phone Number: ( ) _____ - _____

2. ***What is the status of performance funding by state government for institutions of higher education in your state?***

[ ] (a) Currently have performance funding program
[ ] (b) Do not currently have program – no plans to implement one
[ ] (c) Do not currently have program – planning to implement one in near future
[ ] (d) Do not currently have program – had one previously (on a separate sheet, please summarize why your performance funding program has discontinued)

NOTE: If you marked "a", go on to question #3. If you marked "b", stop here and return the survey. If you marked "c" or "d", please answer as many of the questions as you are able. Thank you for your time.

3. ***Breadth of Performance Funding Program***

a. What sectors of higher education are eligible to receive funds through your state's program? (check all that apply)

[ ] Public Four-Year
[ ] Public Two-Year
[ ] Independent Colleges and Universities

b. Are the funds allocated through this program restricted to use for specific areas within an institution (e.g., instruction, research, minority student retention)?

[ ] YES (if yes, go to question 3C)
[ ] NO (if no, go to question 3D)

c. To what specific areas are the funds restricted?

_____

_____

d. What was the state general fund appropriation for the performance funding program in FY 1995?
$_____

e. What was the corresponding state general fund appropriation for all higher education operations in FY 1995 (inclusive of the performance funding appropriation)? $_____

f. In your state, is performance funding specific to higher education, or part of a general state performance funding initiative involving most or all other state agencies?

_____

4. ***Program Objectives***

a. Please summarize the major policy objectives of your state's performance funding program, e.g., improving the quality of undergraduate education.

_____

_____

_____

_____

b. How is the funding mechanism linked to the stated policy objectives?

_____

_____

_____

_____

5. ***Program History***

a. What year was the program implemented? _____

b. What was the impetus for the program's establishment? (e.g., from within higher education, the legislature, the governor) Attach more sheets if necessary.

_____

_____

_____

_____

c. Please provide the history of program funding from state and non-state sources (attach additional sheets if necessary).

Year	State Funding	Non-State Funding
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

d. How many separate institutions (by sector) have received funds through this program since implementation?

Public Four-Year: _____

Public Two-Year: _____

Independent Colleges and Universities: _____

e. Please highlight any major changes to the program over time (e.g., eligibility, funding mechanism). Attach more sheets if necessary.

_____

_____

_____

6. ***Program Mechanics***

a. How are funds distributed to institutions?

[ ] Through formula
[ ] Through competitive grant process
[ ] Other (please describe) _____

b. When are the funds distributed to institutions?

[ ] As part of annual/biennial budget allocation
[ ] During academic/fiscal year
[ ] Other (please describe) _____

7. ***Performance Measures and Evaluation***

a. Please list any performance measures that are employed in awarding funds through this program:

_____

_____

_____

b. What are the primary data sources for these measures?

_____

_____

_____

c. Who is involved with performance assessment/post-audit? (check all that apply)

[ ] Campus receiving funds
[ ] Governing board central office
[ ] State higher education board
[ ] Executive branch agency
[ ] Legislative service agency
[ ] Independent auditor

8. ***Observations on Program Effectiveness and Future Outlook***

a. In your opinion, what are the general impressions of major policy makers in your state regarding the effectiveness of this program? Please rate the groups below using the following scale - **1** = Highly Effective; **2** = Effective; **3** = Neutral; **4** = Ineffective; **5** = Highly Ineffective.

[ ] Governor
[ ] Governor's Staff
[ ] Legislative Leadership
[ ] Legislative Staff
[ ] State Higher Education Board Members
[ ] SHEEO
[ ] Governing Board Members
[ ] System Heads
[ ] Institutional Presidents

b. Based on your experience, what modifications would you suggest for this program?

_____

_____

_____

c. What lessons were learned during the early years of implementation that should be considered by states planning to implement their own state program?

_____

_____

_____

d. To what extent does an institution have control over the presentation and interpretation of performance measures?

[ ] Substantial control
[ ] Some control
[ ] No control

e. In your opinion, has this program resulted in a larger amount of funding for higher education in your state?

[ ] YES
[ ] NO

f. In your opinion, is the performance funding vulnerable to current or future cost-cutting pressures?

[ ] More vulnerable than base appropriation
[ ] As vulnerable as base appropriation
[ ] Less vulnerable than base appropriation

THANK YOU VERY MUCH FOR YOUR TIME AND COOPERATION. PLEASE INDICATE BELOW IF YOU WOULD LIKE A COPY OF THE FINAL SURVEY RESULTS:

[ ] YES [ ] NO

Please return survey to:

Dr. J. Kent Caruthers
MGT of America
2425 Torreya Drive
Tallahassee, FL 32303

031/perfund2.frm

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